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# VETERANS' BOND ACT OF 1990

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142

## Veterans' Bond Act of 1990

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### Official Title and Summary

#### VETERANS' BOND ACT OF 1990

- This act provides for a bond issue of four hundred million dollars (\$400,000,000) to provide farm and home aid for California veterans.
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### Final Votes Cast by the Legislature on SB 2755 (Proposition 142)

Assembly: Ayes 71	Senate: Ayes 36
Noes 0	Noes 0

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## Analysis by the Legislative Analyst

### Background

Since 1921, the voters have approved a total of about \$1 billion of general obligation bond sales to finance the veterans' farm and home purchase (Cal-Vet) program. General obligation bonds are backed by the state, meaning that the state is obligated to pay the principal and interest costs on these bonds.

The money from these bond sales is used by the Department of Veterans Affairs to purchase farms, homes, and mobilehomes which are then resold to California veterans. Each participating veteran makes monthly payments to the department. These payments are in an amount sufficient to (1) reimburse the department for its costs in purchasing the farm, home, or mobilehome, (2) cover all costs resulting from the sale of the bonds, including interest on the bonds, and (3) cover the costs of operating the program.

Because the state is able to borrow at interest rates that are well below those charged to individuals, the veteran's monthly payments under this program are less than what they otherwise would be.

### Proposal

This proposition would authorize the state to sell \$400 million in general obligation bonds for the Cal-Vet program. The Department of Veterans Affairs advises that these bonds would provide sufficient funds to enable about 3,200 additional veterans to receive loans.

### Fiscal Effect

*Direct Cost of Paying Off the Bonds.* The bonds authorized by this measure probably would be paid off over a period of up to 25 years. Assuming all of the authorized bonds are sold at an interest rate of 7.5 percent, the cost would be about \$900 million to pay off both the principal (\$400 million) and interest (about \$500 million). The average payment for principal and interest would be about \$37 million per year.

Throughout its history, the Cal-Vet program has been totally supported by the participating veterans, at no direct cost to the taxpayer. However, if the payments made by those veterans participating in the program do not fully cover the principal and interest payments on the bonds, the state's taxpayers would pay the difference.

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For text of Proposition 142 see page 50

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## Argument in Favor of Proposition 142

The Cal-Vet home and farm loan program does not cost the taxpayers a dime, but it is a real benefit to California's wartime veterans and their families. Since it began in 1921 it has been entirely self-supporting and financially safe and sound.

Voter-approved general obligation bonds finance the program and are repaid, as are all administrative costs, from the loan payments made by veterans holding Cal-Vet loans.

The Cal-Vet program is an appropriate expression of our appreciation for the sacrifices U.S. veterans of foreign wars make in defense of our state and nation. Along with assisting California veterans in their efforts to rejoin the "mainstream" of life, the program benefits the entire state economy. Cal-Vet home and farm loans generate thousands of jobs, millions of dollars in payroll, and economic opportunities for all the industries and businesses, professions and trades connected with serving the housing market.

More than 392,000 California wartime veterans have

financed homes and farms during the last 69 years through the Cal-Vet program.

Proposition 142 is necessary if the Cal-Vet program is to continue to provide equitable and efficient service to all applicants. The act was placed on the ballot unanimously by votes of 36-0 in the State Senate and 62-0 in the State Assembly.

We respectfully ask you to vote FOR Proposition 142, the Veterans' Bond Act of 1990. Your approval will enable qualified California wartime veterans to buy homes and farms in our state at low interest cost to them and at no tax cost to you. Let's continue this expression of appreciation to our veterans.

**DON ROGERS**

*State Senator, 16th District*

**BEV HANSEN**

*Assembly Member, 8th Assembly District*

**B. T. COLLINS**

*California Vietnam Veteran Memorial Commissioner*

## Rebuttal to Argument in Favor of Proposition 142

We agree that the Cal-Vet program has been financially self-supporting—so far. This is because the California economy has constantly grown. This is likely to change over the next decade. Real estate markets have already slowed to a snail's pace. A recession will cause many of the veterans who own homes and farms under Cal-Vet to default, leaving taxpayers to pay these bad debts.

The proponents argue that Cal-Vet loans generate thousands of jobs and economic opportunities for the housing industry. This may have been true in the past, especially after World War II, but now there are already more houses on the market than people are willing or able to buy. Proposition 142 will *not* singlehandedly revive the economy.

The economy can be revived only by cutting back the size of government, reducing taxes, and eliminating agencies and regulations that put burdens on businesses that are trying to create jobs. Proposition 142 won't do any of this. Indeed, it is just one of hundreds of

unnecessary government programs.

The problem with California's housing markets can be traced to the Federal Government. Irresponsibly high budget deficits cause government to borrow money to pay its debts, keeping this money unavailable to private borrowers. Interest rates rise, and fewer people can afford mortgage payments. Substantial federal budget cuts are required. It is deceptive to tell voters that a small California program like Cal-Vet will help the economy at all.

Say NO to one more government program. VOTE NO on Proposition 142.

**RICHARD L. "RICK" ARNOLD**

*Retired Army Officer*

**PAUL N. GAUTREAU**

*Attorney at Law*

**TED BROWN**

*Chairman, Los Angeles Central Committee,  
Libertarian Party of California*

**Argument Against Proposition 142**

California's state government has created far too many special-interest programs. The Cal-Vet program was first established after World War I to help those veterans buy homes. Since a large number of Californians stood to benefit from that program, politicians were only too happy to adopt it.

The Legislative Analyst tells us that the Cal-Vet program costs taxpayers nothing. However, if the payments made by participating veterans do not fully cover the principal and interest payments on the bonds, the taxpayers would have to pay the difference.

California's real estate boom may be over. A few years ago people could turn big profits on their homes. Not any more. As the economy grows worse, fewer Californians have the option of buying a home. Only 15% of Los Angeles and Orange County residents can now afford the median priced home in their counties. Proposition 142 will tell the unlucky 85% that their tax dollars may have to go to subsidize Cal-Vet loans.

Veterans deserve our appreciation, especially those who served in combat. The Federal Government already provides extensive veterans benefits, and the Department of Veterans Affairs is a newly created

Cabinet position on the same level as the Treasury and Justice Departments. One veterans' benefit is the VA home loan program. This is duplicated by the Cal-Vet program for the political benefit of state legislators.

We do not believe it is fair for the average Californian to be unable to save enough for a down-payment, while a veteran, with government assistance, can buy a home with no money down. Then, if the veteran can't keep up the mortgage payments, he leaves the taxpayers holding the bag.

It's a matter of fairness. The government should not play favorites and give special privileges to veterans. The worsening economy will lead many veterans to default on their loans. Then you and I will pay.

**VOTE NO on Proposition 142**

**RICHARD L. "RICK" ARNOLD**  
*Retired Army Officer*

**PAUL N. GAUTREAU**  
*Attorney at Law*

**TED BROWN**  
*Chairman, Los Angeles County Central Committee,  
Libertarian Party of California*

**Rebuttal to Argument Against Proposition 142**

Please don't be misled by the erroneous statements made by the opponents to the Veterans Bond measure.

Arguing that "politicians" like the Cal-Vet loan program is intended to persuade you that there must be something wrong with it. Fortunately, the voters of California are smarter than that and have approved 23 similar Veterans Bond acts since the program began in 1921.

There is absolutely no reason to weaken the totally self-supporting Cal-Vet program. Proposition 142 will assist at least 4,000 California citizens who are wartime veterans to become homeowners. The state's economy will be helped also by the entry of these citizens into the housing market.

The Cal-Vet program has never been "subsidized" by California taxpayers. The veterans who benefit from this program are California taxpayers! Proposition 142 is the only bond act on the ballot that is fully self-supporting.

The veterans who receive Cal-Vet loans pay all the costs of the bonds, plus all administrative costs of the program.

Those eligible for Cal-Vet loans must save for a down payment, too. In fact, the Cal-Vet loan program requires a down payment of at least 5% on all loans in excess of \$35,000.

Don't allow these doomsayers to persuade you to assist in making their prediction of a "worsening economy" more likely. Please vote FOR Proposition 142. Help boost California's economy and let our wartime veterans of California know we appreciate that they were there for us and now we are there for them.

**DON ROGERS**  
*State Senator, 16th District*

**BEV HANSEN**  
*Assembly Member, 8th Assembly District*

**B. T. COLLINS**  
*California Vietnam Veteran Memorial Commissioner*

## Proposition 142: Text of Proposed Law

This law proposed by Senate Bill 2755 (Statutes of 1990, Ch. 573) is submitted to the people in accordance with the provisions of Article XVI of the Constitution.

This proposed law adds sections to the Military and Veterans Code; therefore, new provisions proposed to be added are printed in *italic type* to indicate that they are new.

### PROPOSED LAW

SECTION 1. Article 5u (commencing with Section 998.098) is added to Chapter 6 of Division 4 of the Military and Veterans Code, to read:

#### *Article 5u. Veterans' Bond Act of 1990*

998.098. *This article may be cited as the Veterans' Bond Act of 1990.*

998.099. (a) *The State General Obligation Bond Law (Chapter 4 (commencing with Section 16720) of Part 3 of Division 4 of Title 2 of the Government Code), except as otherwise provided herein, is adopted for the purpose of the issuance, sale, and repayment of, and otherwise providing with respect to, the bonds authorized to be issued by this article, and the provisions of that law are included in this article as though set out in full in this article. All references in this article to "herein" refer both to this article and that law.*

(b) *For purposes of the State General Obligation Bond Law, the Department of Veterans Affairs is designated the board.*

998.100. *As used herein, the following words have the following meanings:*

(a) *"Bond" means veterans' bond, a state general obligation bond, issued pursuant to this article adopting the provisions of the State General Obligation Bond Law.*

(b) *"Committee" means the Veterans' Finance Committee of 1943, created by Section 991.*

(c) *"Board" means the Department of Veterans Affairs.*

(d) *"Fund" means the Veterans' Farm and Home Building Fund of 1943, created by Section 988.*

(e) *"Bond act" means this article authorizing the issuance of state general obligation bonds and adopting the State General Obligation Bond Law by reference.*

998.101. *For the purpose of creating a fund to provide farm and home aid for veterans in accordance with the Veterans' Farm and Home Purchase Act of 1974 (Article 3.1 (commencing with Section 987.50)), and of all acts amendatory thereof and supplemental thereto, the committee may create a debt or debts, liability or liabilities, of the State of California, in the aggregate amount of not more than four hundred million dollars (\$400,000,000), exclusive of refunding bonds, in the manner provided herein.*

998.102. (a) *All bonds authorized by this article, when duly sold and delivered as provided herein, constitute valid and legally binding general obligations of the State of California, and the full faith and credit of the State of California is hereby pledged for the punctual payment of both principal and interest thereof.*

(b) *There shall be collected annually in the same manner and at the same time as other state revenue is collected a sum of money, in addition to the ordinary revenues of the state, sufficient to pay the principal of, and interest on, these bonds as provided herein, and all officers required by law to perform any duty in regard to the collection of state revenues shall collect this additional sum.*

(c) *On the dates on which funds are remitted pursuant to Section 16676 of the Government Code for the payment of the then maturing principal of, and interest on, the bonds in each fiscal year, there shall be returned to the General Fund all of the money in the fund, not in excess of the principal of, and interest on, any bonds then due and payable, except as herein provided for the prior redemption of the bonds. If the money so returned on the remittance dates is less than the principal and interest then due and payable, the balance remaining unpaid shall be returned to the General Fund out of the fund as soon as it shall become available, together with interest thereon from the dates of maturity until so returned, at the same rate of interest as borne by the bonds, compounded semiannually.*

998.103. *There is hereby appropriated from the General Fund, for purposes of this article, a sum of money that will equal both of the following:*

(a) *That sum annually necessary to pay the principal of, and the interest on, the bonds issued and sold as provided herein, as that principal and interest become due and payable.*

(b) *That sum necessary to carry out Section 998.104, appropriated without regard to fiscal years.*

998.104. *For purposes of this article, the Director of Finance may, by executive order, authorize the withdrawal from the General Fund of a sum of money not to exceed the amount of the unsold bonds which have been authorized by the committee to be sold pursuant to this article. Any sums withdrawn shall be deposited in the fund. All money made available under this section to the board shall be returned by the board to the General Fund, plus the interest that the amounts would have earned in the Pooled Money Investment Account, from the sale of bonds for the purpose of carrying out this article.*

998.105. *The board may request the Pooled Money Investment Board to make a loan from the Pooled Money Investment Account, in accordance with Section 16312 of the Government Code, for the purposes of carrying out this chapter. The amount of the request shall not exceed the amount of unsold bonds which the committee has, by resolution, authorized to be sold for the purpose of carrying out this chapter. The board shall execute whatever documents are required by the Pooled Money Investment Board to obtain and repay the loan. Any amounts loaned shall be deposited in the fund to be allocated by the board in accordance with this chapter.*

998.106. *Upon request of the board, supported by a statement of its plans and projects approved by the Governor, the committee shall determine whether to issue any bonds authorized under this article in order to carry out the board's plans and projects, and, if so, the amount of bonds to be issued and sold. Successive issues of bonds may be authorized and sold to carry out these plans and projects progressively, and it is not necessary that all the bonds be issued or sold at any one time.*

998.107. *So long as any bonds authorized under this article are outstanding, the Director of Veterans Affairs shall, at the close of each fiscal year, require a survey of the financial condition of the Division of Farm and Home Purchases, together with a projection of the division's operations, to be made by an independent public accountant of recognized standing. The results of each survey and projection shall be reported in writing by the public accountant to the Director of Veterans Affairs, the California Veterans Board, and the committee.*

*The Division of Farm and Home Purchases shall reimburse the public accountant for these services out of any money which the division may have available on deposit with the Treasurer.*

998.108. *The committee may authorize the Treasurer to sell all or any part of the bonds authorized by this article at the time or times fixed by the Treasurer.*

*Whenever the committee deems it necessary for an effective sale of the bonds, the committee may authorize the Treasurer to sell any issue of bonds at less than their par value, notwithstanding Section 16754 of the Government Code. However, the discount on the bonds shall not exceed 3 percent of the par value thereof.*

998.109. *Out of the first money realized from the sale of bonds as provided herein, there shall be redeposited in the General Obligation Bond Expense Revolving Fund, established by Section 16724.5 of the Government Code, the amount of all expenditures made for the purposes specified in that section, and this money may be used for the same purpose and repaid in the same manner whenever additional bond sales are made.*

998.110. *Any bonds issued and sold pursuant to this article may be refunded in accordance with Article 6 (commencing with Section 16780) of Chapter 4 of Part 3 of Division 2 of Title 2 of the Government Code. The approval of the voters for the issuance of bonds under this article includes approval for the issuance of bonds issued to refund bonds originally issued or any previously issued refunding bonds.*

998.111. *Notwithstanding any provision of the bond act, if the Treasurer sells bonds under this article for which bond counsel has issued an opinion to the effect that the interest on the bonds is excludable from gross income for purposes of federal income tax, subject to any conditions which may be designated, the Treasurer may establish separate accounts for the investment of bond proceeds and for the earnings on those proceeds, and may use those proceeds or earnings to pay any rebate, penalty, or other payment required by federal law or take any other action with respect to the investment and use of bond proceeds required or permitted under federal law necessary to maintain the tax-exempt status of the bonds or to obtain any other advantage under federal law on behalf of the funds of this state.*

998.112. *The Legislature hereby finds and declares that, inasmuch as the proceeds from the sale of bonds authorized by this article are not "proceeds of taxes" as that term is used in Article XIII B of the California Constitution, the disbursement of these proceeds is not subject to the limitations imposed by Article XIII B.*